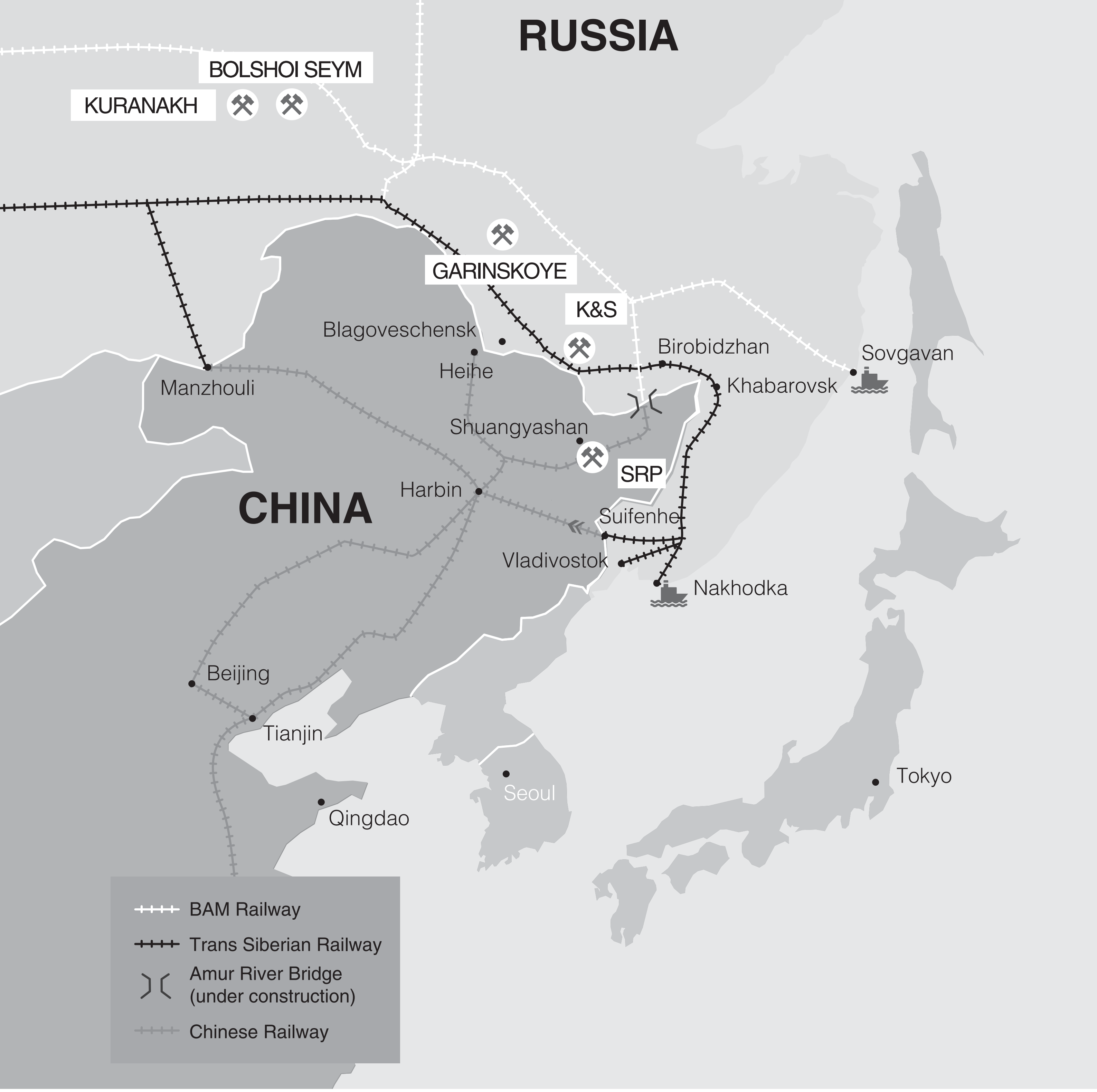
铁货 IRC

IRC Limited

HONG KONG STOCK CODE 股份代號：1029

Interim Report
中期報告 2019



ABOUT US

IRC is the largest iron ore mining operator exclusively in the Russian Far East. Our world-class expertise focuses on producing the high-quality iron ore concentrate with long term customer relationship in China and Russia.

WHY IRC

IRC is unique in the iron ore market due to its competitive advantages, namely superior geology and direct access using established world-class infrastructure to China, the world's largest iron ore market.

2019 AND BEYOND

K&S mine, our 3.2 million tonne per annum project, has started commercial production and will reach full capacity soon. The mine produces premium 65% iron ore products at some of the most competitive industry costs levels. In long term, we will have optionalities of doubling the group's production capacity and beyond by developing K&S Phase II and other exploration projects.

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CHAIRMAN AND CEO REPORT

Dear Shareholders and Stakeholders,

During the first half of 2019, IRC's principal objectives are to increase of production capacity, improve financial performance, manage corporate risks and, above all, increase value and returns to our shareholders. The solid operating performance, coupled with high commodity prices, saw us achieving a strong operating result during the period.

K&S OPERATION

During the reporting period, we increased the production capacity of K&S to an average of about 80% of the designed capacity, as we continued our endeavours to unlock the value of the project. In this connection, it is a pleasure to report that the mine successfully operated at close to full capacity of 93% in June 2019, delivering a monthly production record. Apart from selling to the customers in the north-eastern part of China and Russia, K&S has also made trial shipments to customers in the more southern part of China to expand the customer base. Production in August 2019 was affected by torrential rain, but it is expected that the weather would soon improve to allow production to be back to normal level. We look forward to enjoying the full benefit of K&S as the project continues to increase its production capacity.

OPERATING PERFORMANCE

Our focus on efficiency and productivity improvements is continuing to deliver good financial returns. In the first half of the year, we produced 16% more iron ore concentrate than in the same period last year. The market iron ore price has also been moving in our favour in the first six months of 2019. As a result, our revenue increased by 27% to US$89.2 million and the EBITDA of the mine in production segment improved by 63% to US$23.7 million. This good operating result is also attributable to tight cost-controls and, despite general inflation, our cash cost reduced by 3.5% from US$51.7 per tonne in the first half of 2018 to US$49.9 per tonne in 2019.

In spite of this success, from a strict accounting point of view, the bottom line was affected by a number of non-operating items; most noticeably, the write-off of the unamortised loan costs of US$11.5 million, associated with the ICBC loan. The costs of the ICBC facility that were hitherto spread over its life now have to be recognised and this non-cash item accounts for almost half of the reported loss for the period. Our 2019 interim results were also affected by increased depreciation charges amounting to US$14.9 million, following the write back of provisions made earlier. It should be noted that these are accounting adjustments and do not affect our cashflow and the ICBC related charge is a one-off. After taking into account these write-offs, we report a loss of US$25.2 million for the first half of 2019.

Nonetheless, we ended the reporting period with a healthy balance sheet with a net assets of US$274 million, equivalent to HK$0.30 per share.

FINANCE

Since K&S commenced operation, it has always been our intention to refinance the ICBC project finance facility and in March 2019, IRC celebrated a significant milestone with the completion of the refinancing of the ICBC loan. We are grateful of ICBC and Sinosure for providing the initial debt financing to IRC, allowing the construction of K&S for the production of high-grade iron ore concentrate. We are excited to have Gazprombank as our new finance provider, and are also grateful of the support from our largest shareholder, Petropavlovsk, for continuing to be the guarantor of the facility. The repayment schedule of the Gazprombank facility is more closely aligned with the K&S's production plan and should improve the cashflow position of the Group. This provides a solid foundation for the development of IRC.

RISK MANAGEMENT

While we have a portfolio of undeveloped projects, at present, IRC is essentially a single product company and our financial performance is very dependent on the market iron ore price. To manage this concentration of risk, IRC hedges the iron ore price to reduce the risks of adverse price movements. Although this means that we may not be able to fully capture the upside of the market price, hedging secures a healthy margin of cashflow, which is important from a risk management perspective, especially in light of the need to service the Gazprombank facility. Our strategy is to hedge no more than half of K&S's production and our hedging is not speculative in nature.

OUTLOOK

We continued to face global uncertainties in the first half of 2019. Markets were destabilised by a number of factors: favourably from IRC's point of view by the sadness surrounding the Vale problems in Brazil and negatively by the trade and political tensions between the USA and China. The resulting trade tariff battle between the world's two largest economies introduces numerous uncertainties to the economic prosperity and stability of much of the world, as does the ongoing slowing growth in China itself and other Asian economies. Reflecting these developments, the reporting period saw a degree of price volatility for iron ore, albeit with a positive overall effect.

We remain cautiously optimistic about the outlook of the iron ore market. The growing demand for iron ore as a critical element in Chinese infrastructure projects and the massive developments on Belt-Road Initiative look to be here to stay and represent strong new sources of demand, which we believe will help offset the continued global trade disputes. With growing production and an attractive portfolio of future projects, IRC is well positioned to meet this market demand of iron ore.

IRC has experienced many ups and downs and we have no doubt that the future will bring many new opportunities and challenges. What we have learnt, though, is that by focusing on what we do best – maintaining our costs, running safely and operating efficiently, we are ready and able to ride out the shorter-term fluctuations in the markets in which we operate.

Our entire business revolves around people, including, of course, our diverse range of stakeholders and shareholders. An obvious statement perhaps, but this basic acknowledgement is at the heart of how we consider our decisions at every level of IRC. We take care to give our employees clarity about their roles and an understanding about the part they play towards our business objectives. It is people that deliver our results, who engage with our stakeholders and shareholders, and who are unlocking our full potential.

We would like to finish by thanking all of our employees and shareholders for their continuous support.

Peter Hambro	**Yury Makarov**
Chairman	*Chief Executive Officer*

RESULTS OF OPERATIONS

The following table summarises the consolidated results of the Group for the six months ended 30 June 2019 and 2018:

	For the six months ended 30 June		
	2019	2018	Variance
Key Operating Data			
Iron Ore Concentrate			
– Production volume (wet metric tonnes)	***1,262,938***	*1,084,602*	*16.4%*
– Sales volume (wet metric tonnes)	***1,239,398***	*1,046,649*	*18.4%*
Average selling price (US$/tonne)			
*– based on wet metric tonne^*	***71***	*67*	*6.0%*
*– based on dry metric tonne^*	***77***	*73*	*5.5%*
Consolidated Income Statement (US$'000)			
Revenue			
Iron Ore Concentrate	**88,546**	69,962	26.6%
Engineering Services	**698**	223	>100%
Total Revenue	**89,244**	70,185	27.2%
Site operating expenses and service costs before depreciation and amortisation	**(65,924)**	(56,123)	17.5%
General administration expenses before depreciation and amortisation	**(5,118)**	(5,229)	(2.1%)
Depreciation and amortisation	**(14,919)**	(9,132)	63.4%
Other income, gains and losses	**508**	1,713	(70.3%)
Foreign exchange (losses)/gains	**(5,520)**	1,263	N/A
Write-off of unamortised loan costs	**(11,465)**	–	N/A
Allowance for financial assets measured at amortised cost	**–**	(7,548)	N/A
Other financial costs	**(12,738)**	(10,430)	22.1%
Loss before taxation	**(25,932)**	(15,301)	69.5%
Income tax credit/(expense)	**708**	(336)	(>100%)
Loss after taxation	**(25,224)**	(15,637)	61.3%
Non-controlling interests	**20**	18	11.1%
Loss attributable to owners of the Company	**(25,204)**	(15,619)	61.4%
Underlying Results (US$'000)			
EBITDA			
– Mine in production	**23,683**	14,561	62.6%
– Group (excluding foreign exchange)	**18,684**	10,503	77.9%
– Group	**13,164**	11,766	11.9%
Loss attributable to owners of the Company,			
– excluding one-off non-recurring items	**(13,739)**	(8,071)	70.2%
– excluding one-off non-recurring items and foreign exchange	**(8,219)**	(9,334)	(11.9%)

^ If the average selling price is calculated based on dry metric tonne and, before taking into account the negative price variance of about US$9.3 per tonne due to hedging, average selling price was about US$86.5 per tonne for the six months ended 30 June 2019 (30 June 2018: US$74.5 per tonne).

THE UNDERLYING RESULTS OF THE GROUP

IRC's operating results are mainly derived from the operation of K&S. The Group manages its operations with principal reference to the underlying operating cash flows and recurring earnings.

EBITDA

EBITDA is a key performance indicator for IRC. For the first half of 2019, due to the higher sales revenue from the K&S mine, EBITDA of the mine in production segment increased by 62.6% to US$23.7 million. This is also reflected in the Group's EBITDA. If the foreign exchange movement is excluded, the Group's EBITDA improved by 77.9% from US$10.5 million in the first half of 2018 to US$18.7 million in 2019.

The Group's net EBITDA is, however, affected by foreign exchange change movements. The bridging loan from Petropavlovsk as well as the accruals and payables of the Group were mostly denominated in Russian Rouble and the appreciation of Rouble has given rise to foreign exchange losses. In the first half of 2019, we reported a foreign exchange loss of US$5.5 million while a gain of US$1.3 million was recorded in the same period last year. This US$6.8 million swing in foreign exchange, which is not within IRC's control, resulted in the group's 2019 EBITDA being only 11.9% higher than that of last year.

Loss attributable to owners of the Company – excluding one-off non-recurring items

The Group's income statement sometimes includes certain material non-cash items which are non-operating and non-recurring in nature and should be considered separately.

The Group had an unamortised borrowing cost of US$11.5 million relating to the ICBC loan which was to be amortised. As the Group has refinanced the ICBC loan facility in the first half of 2019, this necessitated an accounting adjustment to fully write off this unamortised cost of in the statement of profit or loss in the first half of 2019, instead of amortising the cost over the remaining loan term. The write off does not have any cash impact on the Group.

In the first half of 2018, the Company had a net receivable from General Nice and, due to a winding up order being made by the High Court of Hong Kong against General Nice, it was unlikely that the Company would recover the receivable. Consequently, a one-off, non-cash provision of US$7.5 million was charged to the statement of profit or loss.

To facilitate a better understanding of the Group's operating results, the calculation of the Group's underlying results, which excludes the effect of the above items, is set out below:

	For the six months ended 30 June		
US$'000	**2019**	2018	Variance
Loss attributable to owners of the Company	**(25,204)**	(15,619)	61.4%
Write-off of unamortised loan costs of ICBC loan	**11,465**	–	N/A
Impairment provision for the receivable from General Nice	**–**	7,548	N/A
Underlying loss for the period	**(13,739)**	(8,071)	70.2%
Foreign exchange	**5,520**	(1,263)	N/A
Underlying loss for the period, excluding foreign exchange	**(8,219)**	(9,334)	(11.9%)

The underlying loss of the Group amounted to US$13.7 million (30 June 2018: US$8.1 million). The higher loss figure was mainly due to the following:

- A greater foreign exchange loss, as explained above;
- Higher depreciation charge resulting from the reversal of asset impairments at the end of 2018; and
- Higher other financial costs due to the higher interest rates of the loans from Gazprombank and Petropavlovsk.

The effect of foreign exchange played a significant part in the underlying results. If the effect of foreign exchange, which is not within the control of IRC, is excluded, the underlying loss reduced by US$1.1 million to a loss of US$8.2 million. It is considered that this is a more accurate reflection of IRC's performance in the first half of 2019.

REVENUE

Iron ore concentrate

K&S mine is the main revenue contributor, accounting for most of IRC's revenue in the first half of 2019. The mine continues to increase sales and production volumes since the commencement of commercial production in 2017. The market continued to demonstrate good demand for high-grade iron ore during the reporting period. When comparing to the same period last year, the sales of iron ore concentrate from K&S increased by 18.4% to 1,239,398 tonnes.

The achieved selling price increased by 5.5% to US$77 per tonne on the dry metric tonne basis. This is arrived at after taking into account the effect of hedging. As part of the ongoing hedging program for risk management purposes, IRC considered it prudent to take advantage of the strong price environment. During the 6-month period, IRC entered into various hedging contracts to reduce the risks of adverse price movements. IRC's strategy is to hedge no more than half of K&S's production with the remaining volume left unhedged. The hedging instruments, mostly in the form of protective collars, would protect IRC from any significant reduction in iron ore price. Although IRC may not be able to fully capture the upside of the market price increase, as some of the protective hedging transactions were entered into before the price surge due to the Vale incident, hedging allows the Group to secure a comfortable level of profit and cashflow which are particularly important for a single-product company like IRC. If the effect of hedging is excluded, the achieved selling price on dry metric tonne basis would be US$86.5 per tonne. Under the accounting policy of IRC, the hedging instruments are subject to fair valuation adjustments with the gains or losses being reflected in reserve. As of 30 June 2019, the fair value loss of the hedging instruments amounted to US$21.2 million. As the market iron ore price softened after the 2019 interim end, the fair value loss reduced to approximately US$10 million as of the end of August 2019.

As a result of the increased sales volume and selling price, the revenue from K&S mine amounted to US$88.5 million in the first half of 2019, representing a 26.6% increase over the same period last year.

RESULTS OF OPERATIONS (CONTINUED...)

Engineering Services

Revenue from Giproruda, the small engineering services division of the Group, stably increased from US$223,000 to US$698,000, representing increased billing.

SITE OPERATING EXPENSES AND SERVICE COSTS BEFORE DEPRECIATION AND AMORTISATION

Site operating expenses and service costs mainly represents the mining and operating expenses incurred by the Group's sole mine in production, the K&S operation, in respect of the sales of the iron ore concentrate. K&S commenced commercial production in 2017 and IRC started recognising its operating results in the income statement since the beginning of 2017. K&S is progressively conducting the ramp up progress for the plant in order to reach full production capacity level. As a result, there is an increase in site operating expenses and service costs to US$65.9 million in the first half of 2019 (30 June 2018: US$56.1 million) to match with the increased scale of operation. Despite increase in subcontracting mining costs and engineering services, resulting from higher stripping ratios and greater transportation distance as mining activities gradually expand to the outskirt of the pit, the 17.5% increase in cost is proportionately lower than the 18.4% increase in sales volume, reflecting the effect of IRC's stringent cost control.

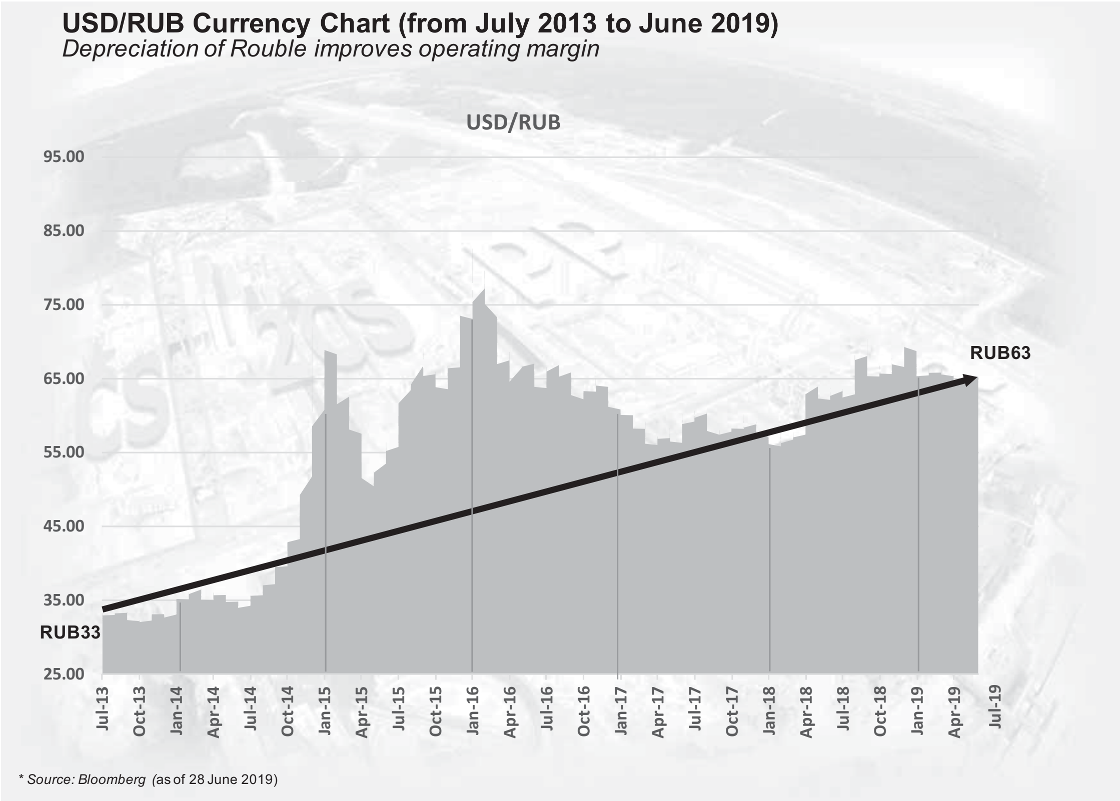
The details of the key cash cost components of the iron ore concentrate sold are showed in the table below:

	For the six months ended 30 June		
	2019		2018
	Total cash cost US$ million	**Cash cost per tonne sold US$/t**	Cash cost per tonne sold US$/t
Mining	**22.3**	**17.7**	12.2
Processing	**13.3**	**10.6**	11.6
Production overheads, site administration and related costs	**13.2**	**10.4**	10.8
Transportation to customers	**19.4**	**15.7**	18.2
Movements in inventories and finished goods	**(5.7)**	**(4.5)**	(1.1)
Net cash cost	**62.5**	**49.9**	51.7

The cash cost per tonne sold in the first half of 2019 decreased by 3.5% to US$49.9 despite a general inflation of 5.1% in Russia. Due to economy of scale on K&S's production, the processing and production overheads, site administration and related costs on a per-tonne basis reduced by 8.6% and 3.7% respectively. In addition, transportation cost to customers reduced by 13.7% to US$15.7/t. When the Amur River Bridge is operational, the transportation cost to customers in China could additionally save up to US$5 per tonne. The higher stripping ratio resulted in higher mining cost during the period, and this is in line with the mining plan. Towards the end of June 2019, the Russian Rouble slightly strengthened to close at RUB63 to the US dollar. Despite this small appreciation in June, over the first half of 2019, the currency generally remained weak. Russian Roubles depreciated to about RUB66 to the US dollar towards end of August 2019. While the Group's income is mainly US Dollars denominated and therefore unaffected by the weakness of Roubles, the Group's operating costs, which are mostly denominated in Roubles, would be reduced as Roubles depreciates.

RESULTS OF OPERATIONS (CONTINUED...)

The chart below shows the depreciation of the Roubles over the past 6 years:



GENERAL ADMINISTRATION EXPENSES BEFORE DEPRECIATION AND AMORTISATION

Special attention continues to be paid to controlling administration costs. The successful implementation of the cost controls continued to provide benefits, with the Group's general administration expenses before depreciation and amortisation of US$5.1 million remained in line with that of last year despite inflation.

DEPRECIATION AND AMORTISATION

In previous years, due to volatility in the global economy and weakness in the commodity markets, significant asset impairments were made against the carrying value of K&S. In 2018, with the successful operation of the mine and the recovery of the market iron ore price, a reversal of asset impairment was made to reflect the increase in asset value. With a higher asset value resulting from the impairment reversal, depreciation charges in 2019 increased from US$9.1 million in the first half of 2018 to US$14.9 million in 2019.

SEGMENT INFORMATION

The mine in production segment, mainly represents the production and sales of the K&S mine, generated an EBITDA of US$23.7 million (30 June 2018: US$14.6 million), representing an increase of 62.6%. After taking into account the depreciation and amortisation charges, the segment reports a profit of US$9.1 million in the first half of 2019 (30 June 2018: US$5.6 million). The Kuranakh operation continues to be under care and maintenance and has no production during the period. The engineering segment recorded a loss of US$0.4 million due to higher operating cost.

FOREIGN EXCHANGE LOSS

The foreign exchange loss of US$5.5 million in 2019 was mainly attributable to the loss arising from the bridge loan from Petropavlovsk and other payables and accruals which were mostly Rouble denominated.

OTHER FINANCIAL COSTS

Other financial costs of US$12.7 million mainly represents the interest expenses on loans from ICBC, Gazprombank and Petropavlovsk. The increase in other financial costs was mainly due to the loans from Gazprombank and Petropavlovsk bearing higher interest rates.

RESULTS OF OPERATIONS (CONTINUED...)

INCOME TAX CREDIT

The income tax credit of US$0.7 million (30 June 2018 income tax expense: US$0.3 million) mainly represents the deferred tax credit.

LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The improvement of the iron ore concentrate price and increasing production volume of K&S contributed to the positive operating results of the Group. However, due to the need to write off the unamortised loan cost of US$11.5 million, coupled with higher depreciation and other financial costs, the loss attributable to the owners of the company in the first half of 2019 amounted to US$25.2 million (2018: US$15.6 million).

CASH FLOW STATEMENT

The following table summaries the key cash flow items of the Group for the six months ended 30 June 2019 and 30 June 2018:

	For the six months ended 30 June	
US$'000	**2019**	2018
Net cash generated from operations	**13,069**	11,675
Interest paid	**(10,138)**	(5,656)
Capital expenditure	**(1,695)**	(2,227)
Taxes paid	**(37)**	(2,367)
Proceeds and repayments of borrowings, net	**8,990**	(1,376)
Loan guarantee and debt arrangement fees paid	**(9,450)**	–
Other payments, lease liabilities and adjustments, net	**(1,067)**	(18)
Net movement during the year	**(328)**	31
Cash and bank balances (including time and restricted deposits)		
– At 1 January	**8,614**	10,974
– At 30 June	**8,286**	11,005

The net cash generated from operations amounted to US$13.1 million (30 June 2018: US$11.7 million), mainly due to increased cash inflow from the K&S mine. In line with the increase in the scope of operation and the higher selling price of iron ore, the accounts receivable balance also increased accordingly. The higher interest rates of the loans from Gazprombank and Petropavlovsk resulted in an increase in interest payment from US$5.7 million to US$10.1 million. Capital expenditure of US$1.7 million was incurred mainly by the K&S mine to support the ramping up of its production. Loan guarantee and debt arrangement fees paid mainly represent the settlement of guarantee fee due to Petropavlovsk and the arrangement fee incurred in relation to the Gazprombank facility.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Share Capital

There were no changes in the share capital of the Company in the first half of 2019.

Cash Position and Capital Expenditure

As at 30 June 2019, the carrying amount of the Group's cash, deposits and bank balances was approximately US$8.3 million (31 December 2018: US$8.6 million).

Exploration, Development and Mining Production Activities

For the six months ended 30 June 2019, US$66.6 million (30 June 2018: US$57.4 million) was incurred on development and mining production activities. No exploration activity was carried out for the first half of 2019 and 2018. The following table details the capital and operating expenditures in the first half of 2019 and 2018:

	For the six months ended 30 June					
	2019			2018		
US$'m	**Operating expenses**	**Capital expenditure**	**Total**	Operating expenses	Capital expenditure	Total
K&S development	**64.9**	**1.5**	**66.4**	55.4	1.9	57.3
Exploration projects and others	**0.0**	**0.2**	**0.2**	0.1	0.0	0.1
	64.9	**1.7**	**66.6**	55.5	1.9	57.4

The table below sets out the details of material new contracts and commitments entered into during first half of 2019 on a by-project basis. The amount was relatively small, reflecting the fact that the K&S mine is close to ramping up to full capacity.

		For the six months ended 30 June	
US$'m	**Nature**	**2019**	2018
K&S	Purchase of property, plant and equipment	**–**	0.2
	Sub – contracting for mining works	**0.9**	0.5
	Sub – contracting for railway and related works	**0.2**	0.8
Others	Other contracts and commitments	**0.6**	0.7
		1.7	2.2

RESULTS OF OPERATIONS (CONTINUED...)

Borrowings and Charges

As at 30 June 2019, the Group had gross borrowings of US$234.8 million (31 December 2018: US$223.7 million), mainly represents the new long-term borrowing drawn from the Gazprombank loan facility. The Gazprombank loan facility is guaranteed by Petropavlovsk. The Group's weighted average interest rate was approximately 9.7% (30 June 2018: 6.6%) per annum.

As announced on 20 March 2019, the refinancing of the ICBC loan has been completed with a drawdown from Gazprombank loan facility on 19 March 2019. The proceeds from the Gazprombank facility has been applied in accordance with the intended use of proceeds to use as the working capital of K&S, full repayments of K&S's outstanding principal indebtedness under ICBC facility and loans from Petropavlovsk. The repayment schedule of the new facility with Gazprombank better aligns with the ramping up of K&S's production and should improve the cashflow position of the Group. This is reflected in the amount of borrowing due within one year, as the amount reduced from US$112.0 million as of the 2018 year end to US$20.7 million as of 30 June 2019.

Risk of Exchange Rate Fluctuation

The Group undertakes certain transactions denominated in foreign currencies, principally Russian Rouble and is therefore exposed to exchange rate risk associated with fluctuations in the relative values of US Dollars. Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, primarily through holding the relevant currencies. As of 30 June 2019, the Group does not undertake any material foreign currency transaction hedging.

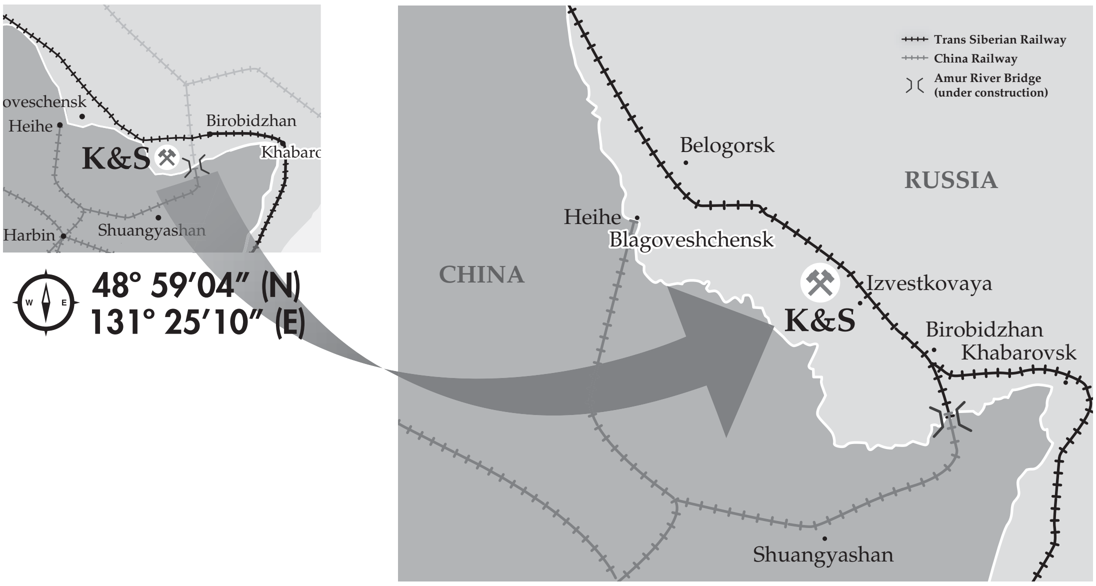
Employees and Emolument Policies

As at 30 June 2019, the Group employed approximately 1,667 employees (31 December 2018: 1,698 employees). The total staff costs excluding share-based payments was US$12.3 million in the reporting period. (30 June 2018: US$12.2 million). The emolument policy of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence with reference to market conditions and trends.

PROJECT REVIEW

K&S

100% owned



OVERVIEW

The K&S Mine, 100% owned by IRC, is located in the Jewish Autonomous Region (EAO) of the Russian Far East. It is the second full-scale mining and processing operation that the Group has developed. The project consists of two principal deposits – Kimkan and Sutara. The K&S Phase I is to produce 3.2 million tonnes per annum of iron ore concentrate with 65% Fe grade. There is an option for a Phase II expansion to produce a total of 6.3 million tonnes of 65% iron ore concentrate per annum. As an interim development between the two phases, IRC is assessing an option to upgrade the Phase I production facility to increase the production capacity to about 4.6 million tonnes per annum. The Phase I Processing Plant has been constructed by CNEEC and funded through a project finance facility provided by ICBC. During March of 2019, IRC has completed refinancing of the ICBC loan with a loan facility from a Russian leading bank, Gazprombank. The principal repayment of the Gazprombank facility is skewed to the latter part of the loan term so that the repayment pattern will better align with the production plans of K&S.

K&S enjoys tremendous geographical advantage. The Trans – Siberian Railway is linked directly to the mine site, allowing easy transport of products to customers. With the usage of the Amur River Bridge which is expected to be completed and operational soon, the transportation cost and distance can be further reduced.

K&S is located in the Obluchenskoye District of the Jewish Autonomous Region (EAO) in the Russian Far East. The operation is 4 kilometres from the town of Izvestkovaya, through which the Trans-Siberian Railway passes. It is also 130 kilometres from the federal highway connecting to the regional capital of Birobidzhan, and 300 kilometres from Khabarovsk, the principal city of the Russian Far East.

K&S RAMP-UP PROGRESS ENTERING INTO FINAL PHASE

During the first half of 2019, K&S's ramp up programme continued and successfully managed several challenges, including taken proper mitigating measures on the issues of drying unit and gearbox in one of the crusher's feeder. In June, K&S broke its monthly production record by operating at an average capacity of 93%. K&S's mining contractors have been maintaining the work rates to ensure the sufficient supply of feedstock for K&S's increasing production volume. Although some additional ramping up issues have been revealed, K&S team is planning to resolve them quickly. Despite more ramping-up tests needing to be conducted, K&S's Processing Plant operated in a continuous manner at a steady production capacity of about 80% in the interim of 2019. With the well-experienced site team, IRC remains confident in resolving the outstanding issues to allow K&S to continue the increase in production volume. The current focus is to achieve designed capacity and catch up on previous deficits.

PRODUCTION

During the first half of 2019, 3,889,400 tonnes of ore was fed for primary processing and 2,652,538 tonnes of pre-concentrate was produced. Finally, 1,262,938 tonnes of iron ore concentrate was produced and 1,239,398 tonnes was sold.

SALES & MARKETING

As K&S is producing more iron ore concentrate, it has also successfully diversified its customer base by selling to customers in different countries and regions, including Russia and China. During the first half of 2019, apart from selling to its existing customers, K&S made trial shipments on CFR basis to customers in the more southern part of China. Despite having higher transportation cost, the achieved selling price was higher. It shows the Group's ability to supply to different geographical markets, as diversification of customers allows the Group to better manage transportation, marketing and pricing risks.

UNIT CASH COST

In view of the fact that K&S has not reached full production capacity, the unit cash cost per tonne in the first half of 2019 amounting to US$49.9 per tonne has not yet reached its optimal level. Taking into account the potential Rouble depreciation and the opening of the Amur River Bridge to reduce transportation costs, the Group considers that K&S's cash cost is expected to be further reduced when full scale operation at K&S is achieved.

SAFETY

The LTIFR is a measure of the number of lost-time injuries per one million hours worked. During the first half of 2019, the K&S's safety was well controlled with only one injury occurred at operation and the LTIFR was 1.45 (30 June 2018 LTIFR: zero).

MINING

The Kimkan operation covers approximately 50 km^2 and comprises two key ore zones – Central and West. Open pit mining is carried out at the Central area, with ore being stockpiled for processing.

During the reporting period, the mining contractors had mined 4,766,300 tonnes of ore, drilled 276,358 metres and blasted 6,998,100 cubic metres at K&S. The mining contractors continue to replenish the stockpiles and prepare for the uplift in production volume in 2019.

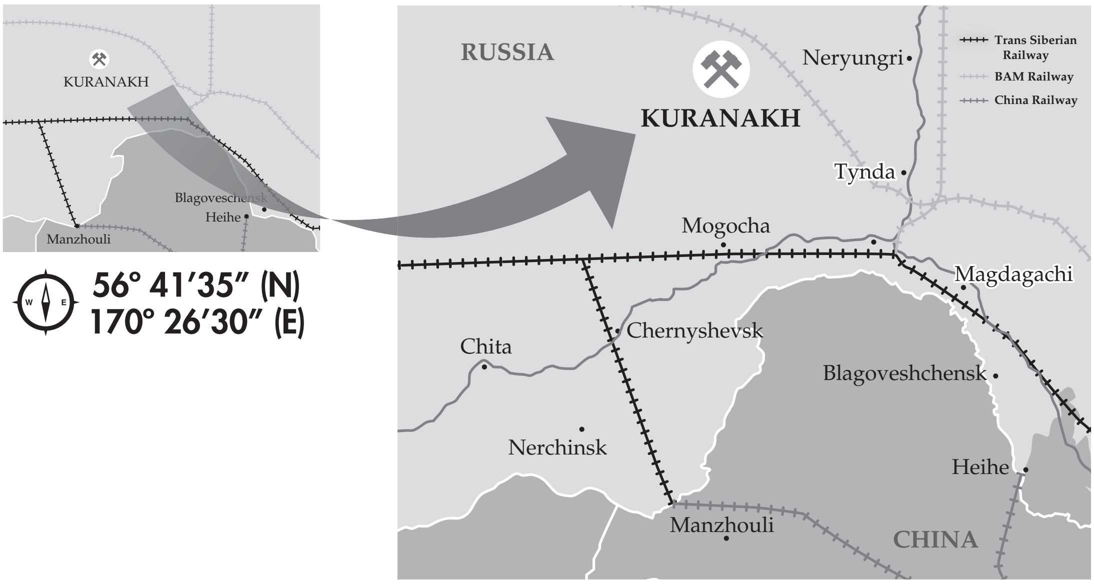
AMUR RIVER BRIDGE/TONGJIANG BRIDGE

Amur River Bridge is a national project to build a railway bridge across the Amur River border between Russia and China. The Amur River Bridge was hailed as one of the major projects between the two countries. These infrastructure projects are expected to bring closer economic cooperation which IRC may benefit from.

According to the local media, in March 2019, the authorities of China's Heilongjiang province has confirmed the last steel beam of the Russian-Chinese railway bridge over Amur River has been installed. Russia has fully completed its engineer work on its side of the bridge. With China having completed the construction of its part in 2018, the main span of the bridge has been connected. The construction and installation of the related infrastructure works and border checkpoints are currently under way and the bridge is expected to be operational soon. The current distance from K&S to the Chinese border (Suifenhe) is approximately 1,000 kilometres. K&S mine is situated approximately 240 kilometres from the bridge site and IRC's nearest customer within China is approximately 180 kilometres away from the bridge. When the Bridge is operational, K&S will be able to reduce the transportation cost to the Chinese border by up to US$5 per tonne, allowing K&S to strengthen its position as a low-cost iron ore concentrate producer. Moreover, the Bridge will become a part of the new export route and stimulus for the creation of new logistical and industrial clusters, improving the transport accessibility of the region which K&S is expected to benefit indirectly.

Kuranakh

100% owned



OVERVIEW

Kuranakh, 100% owned by IRC, is the Group's first mining operation and the first vertically integrated titano-magnetite operation in Russia, designed, built and managed by IRC. The mine was initiated in 2010 and moved to care and maintenance since beginning of 2016 due to challenging operating environment in the commodities market at that time.

The Kuranakh Mine is located in the Amur Region of the Russian Far East, near the town of Olekma, a principal stop on the BAM Railway. The operation covers an area of approximately 85 km^2 and comprises the Kuranakh and Saikta open-pit mines, an on-site Crushing and Screening Plant and the nearby Olekma Processing Plant. The operation produces an iron ore concentrate with a 62.5% Fe quality content and an ilmenite concentrate with a 48% TiO_2 quality content. The concentrates can be directly loaded onto railcar wagons for transportation via the BAM and Trans-Siberian Railways to customers in Russia and China and internationally via the Russian Pacific sea ports.

SAFETY

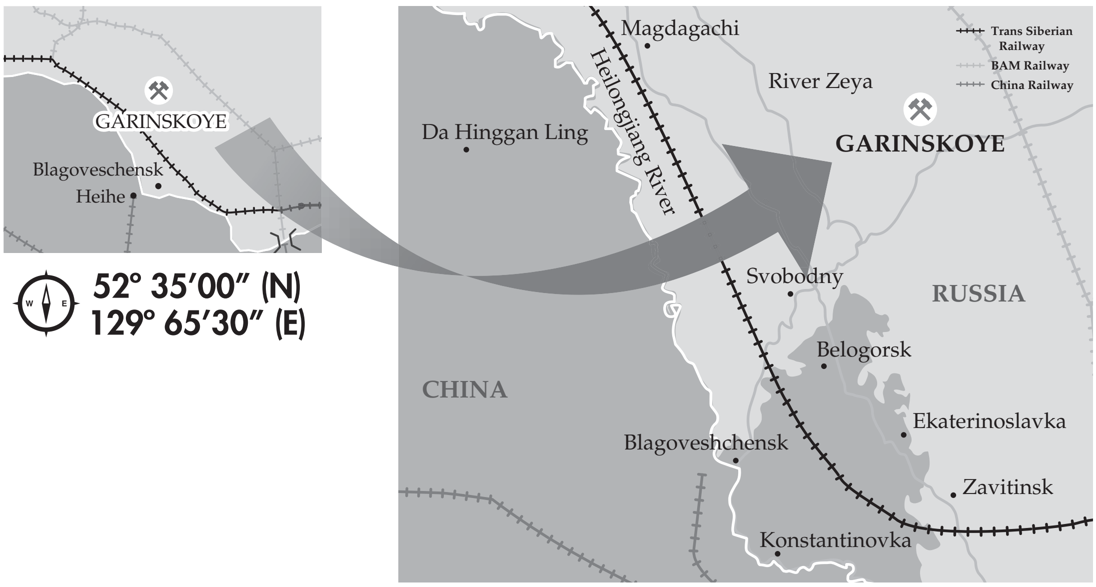
As the mine was moved into care and maintenance, there was no injuries and the LTIFR was zero during the first half of 2019 (30 June 2018 LTIFR: 0).

CONTINUED TO BE IN CARE & MAINTENANCE

Kuranakh has been moved to care and maintenance since the beginning of 2016 due to the softening of the iron ore market prices. Consequently, during the first half of 2019, there was no production or sales from Kuranakh operation. The only minimal costs recorded were for equipment maintenance and security. Although the subsidiary company that holds Kuranakh has applied for liquidation to save the ongoing costs, IRC retains the option of re-opening Kuranakh or pursuing other development alternatives if the metal markets upside prevails.

Garinskoye

99.6% owned



OVERVIEW

Garinskoye, 99.6% owned by IRC, is an advanced exploration. The project offers the potential for a low-cost DSO-style operation, that can be transitioned into a large-scale long-life open pit mining operation.

The project is located in the Amur Region of the Russian Far East, midway between the BAM and Trans-Siberian Railways. With exploration licences for ground covering an area of over 3,500 km^2, the project is the largest in terms of area in the IRC portfolio.

CURRENT DEVELOPMENT

There are two possibilities to develop Garinskoye. The first option is to develop a large-scale 4.6 million tonne per annum open-pit operation with a life-of-mine of 20 plus years, which requires the construction of a rail connection. The second option is an intermediate DSO-style operation that does not require a rail connection and can be started up in advance of a larger conventional operation. The DSO-style plan comprises a pit with a 20.2 million tonnes reserve, 48% Fe grade, and a stripping ratio of 1.7:1 m^3 per tonne. The DSO-style plan would then be able to produce 1.9 million tonnes per annum, with 55% grade iron ore fines and a life of operation of 8 years. There is an option to further increase the project value at very little additional capital expenditure with the addition of a further wet magnetic separation stage to produce a high-grade "super-concentrate" with a 68% iron ore content.

In 2013, IRC completed an internal Bankable Feasibility Study. In 2014, a third-party verification and a fatal flaws analysis for the DSO-style operation was carried out.

Currently, the Garinskoye project is placed on hold until the market conditions for iron ore improve.

Other Projects

EXPLORATION PROJECTS & OTHERS

IRC’s other exploration projects comprise an extensive portfolio that is diversified by geography, commodity and development stages. It aims to add value through the discovery of new resources and increasing and confirming mineable reserves. Currently, IRC is keeping these valuable licenses for later development until market conditions improve. Apart from exploration projects, IRC is also involved in complementary business of a steel slag reprocessing plant (SRP) and a mining consultancy services agency (Giproruda). Regarding the SRP project, as its feedstock was dependent on the concentrate from Kuranakh, and as the latter was moved to care and maintenance during 2016, it was moved to care and maintenance. Having successfully sourced feedstock from China, the SRP project with Jianlong Steel has recommenced operation in the first half of 2019. Below is a summary of the Group’s current exploration projects portfolio:

Project	Products/Service	Location
Kostenginskoye* (100% owned)	Iron ore concentrate	Jewish Autonomous Region, Russian Far East
Bolshoi Seym (100% owned)	Ilmenite	Amur Region, Russian Far East
SRP (46% owned)	Vanadium Pentoxide	Heilongjiang, China
Giproruda (70% owned)	Technical mining research and consultancy services	St. Peterburg, Russia

* Resource base for K&S

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF IRC LIMITED
鐵江現貨有限公司
(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of IRC Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 18 to 48, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

30 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Six Months Ended 30 June 2019

		Six months ended 30 June	
	NOTES	**2019 US$'000 (unaudited)**	2018 US$'000 (unaudited)
Revenue	3	**89,244**	70,185
Operating expenses	5	**(71,042)**	(61,352)
Depreciation and amortisation	5	**(14,919)**	(9,132)
Other income, gains and losses		**(5,012)**	2,976
Allowance for financial assets measured at amortised cost	12	**–**	(7,548)
Financial costs	6	**(24,203)**	(10,430)
Loss before taxation		**(25,932)**	(15,301)
Income tax credit (expense)	7	**708**	(336)
Loss for the period		**(25,224)**	(15,637)
Loss for the period attributable to:			
Owners of the Company		**(25,204)**	(15,619)
Non-controlling interests		**(20)**	(18)
		(25,224)	(15,637)
Loss per share (US cents)	9		
Basic		**(0.36)**	(0.22)
Diluted		**(0.36)**	(0.22)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED...)

For the Six Months Ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(unaudited)	(unaudited)
Loss for the period	**(25,224)**	(15,637)
Other comprehensive income (expense) for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**630**	(547)
Fair value (loss)/gain on cash flow hedge instruments	**(31,815)**	2,026
Release of fair value loss on hedging instruments in cash hedges	**10,660**	–
Total comprehensive expense for the period	**(45,749)**	(14,158)
Total comprehensive (expense) attributable to:		
Owners of the Company	**(45,854)**	(14,025)
Non-controlling interests	**105**	(133)
	(45,749)	(14,158)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	NOTES	As at 30 June 2019 US$'000 (unaudited)	As at 31 December 2018 US$'000 (audited)
NON-CURRENT ASSETS			
Exploration and evaluation assets	10	**19,689**	19,497
Property, plant and equipment	10	**521,884**	533,446
Right-of-use assets	10	**11,445**	–
Inventories		**10,926**	10,926
Interest in a joint venture		**–**	–
Other non-current assets		**60**	3,282
Restricted bank deposit		**–**	977
		564,004	568,128
CURRENT ASSETS			
Inventories		**27,945**	23,168
Trade and other receivables	11	**18,254**	11,027
Time deposits		**682**	–
Bank balances		**7,604**	7,637
		54,485	41,832
TOTAL ASSETS		**618,489**	609,960
CURRENT LIABILITIES			
Trade and other payables	13	**(63,465)**	(54,788)
Income tax payable		**(272)**	(292)
Lease liabilities		**(3,350)**	–
Borrowings – due within one year	14	**(20,710)**	(111,954)
Other financial liabilities	15	**(21,155)**	–
		(108,952)	(167,034)
NET CURRENT LIABILITIES		**(54,467)**	(125,202)
TOTAL ASSETS LESS CURRENT LIABILITIES		**509,537**	442,926
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**(2,914)**	(3,565)
Provision for close down and restoration costs		**(11,503)**	(10,026)
Construction costs payable		**–**	(8,910)
Lease liabilities		**(9,509)**	–
Borrowings – due more than one year	14	**(211,113)**	(100,915)
		(235,039)	(123,416)
TOTAL LIABILITIES		**(343,991)**	(290,450)
NET ASSETS		**274,498**	319,510

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED...)

At 30 June 2019

	NOTE	As at 30 June 2019 US$'000 (unaudited)	As at 31 December 2018 US$'000 (audited)
CAPITAL AND RESERVES			
Share capital	16	**1,285,158**	1,285,158
Capital reserve		**17,984**	17,984
Reserves		**(2,697)**	17,216
Accumulated losses		**(1,025,756)**	(1,000,552)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**274,689**	319,806
NON-CONTROLLING INTERESTS		**(191)**	(296)
TOTAL EQUITY		**274,498**	319,510

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 June 2019

	Total attributable to owners of the Company									
	Share capital US$'000	Capital reserve[(a)] US$'000	Share-based payment reserve US$'000	Translation reserve US$'000	Hedging reserve US$'000	Other reserve[(b)] US$'000	Accumulated losses US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2018 (audited)	1,285,158	17,984	14,190	(21,882)	(1,852)	23,766	(1,068,787)	248,577	(33)	248,544
Loss for the period	–	–	–	–	–	–	(15,619)	(15,619)	(18)	(15,637)
Other comprehensive (expenses) income for the period										
Exchange differences on translation of foreign operations	–	–	–	(432)	–	–	–	(432)	(115)	(547)
Fair value gain on cash flow hedge instruments	–	–	–	–	2,026	–	–	2,026	–	2,026
Total comprehensive (expenses) income for the period	–	–	–	(432)	2,026	–	(15,619)	(14,025)	(133)	(14,158)
Share-based expense	–	–	1,112	–	–	–	–	1,112	–	1,112
Balance at 30 June 2018 (unaudited)	1,285,158	17,984	15,302	(22,314)	174	23,766	(1,084,406)	235,664	(166)	235,498
Balance at 1 January 2019 (unaudited)	1,285,158	17,984	16,156	(22,706)	–	23,766	(1,000,552)	319,806	(296)	319,510
Loss for the period	–	–	–	–	–	–	(25,204)	(25,204)	(20)	(25,224)
Other comprehensive income (expenses) for the period										
Exchange differences on translation of foreign operations	–	–	–	505	–	–	–	505	125	630
Fair value loss on cash flow hedge instruments	–	–	–	–	(31,815)	–	–	(31,815)	–	(31,815)
Release of fair value loss on hedging instruments in cash flow hedges	–	–	–	–	10,660	–	–	10,660	–	10,660
Total comprehensive income (expenses) for the period	–	–	–	505	(21,155)	–	(25,204)	(45,854)	105	(45,749)
Share based expense	–	–	737	–	–	–	–	737	–	737
Balance at 30 June 2019 (unaudited)	1,285,158	17,984	16,893	(22,201)	(21,155)	23,766	(1,025,756)	274,689	(191)	274,498

(a) The amounts represent deemed contribution from the then ultimate holding company of the Company for (1) certain administrative expenses and tax expenses of the Group paid by the then ultimate holding company of the Company in prior years and (2) share-based payment expenses in relation to certain employees of the Group participated in the long term incentive plan of the then ultimate holding company of the Company.

(b) The amounts arose from 1) acquisition of non-controlling interests and deemed contribution arising from the group restructuring for the Company's listing on The Stock Exchange of Hong Kong Limited, 2) transfer of share-based payment reserve upon vesting of share-based awards resulted from difference between the cost of the treasury shares and fair value at grant date of the awarded shares, 3) deemed contribution from General Nice Development Limited ("General Nice"), a shareholder of the Company, for accrued interests on outstanding capital contribution, and 4) direct expenses in relation to the right to subscribe for shares of the Company granted to Tiger Capital Fund SPC – Tiger Global SP ("Tiger Fund").

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Net cash generated from operations	**13,069**	11,675
Income tax paid	**(37)**	(2,367)
NET CASH FROM OPERATING ACTIVITIES	**13,032**	9,308
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and exploration and evaluation assets	**(1,695)**	(2,227)
Time deposits placed	**(682)**	(306)
Restricted deposits withdrawn	**977**	1,000
Proceeds on disposal of property, plant and equipment	**92**	–
Interest received	**26**	43
NET CASH USED IN INVESTING ACTIVITIES	**(1,282)**	(1,490)
FINANCING ACTIVITIES		
Repayment of lease liabilities	**(1,326)**	–
Interest expenses paid	**(10,138)**	(5,656)
Repayment of borrowings	**(231,010)**	(31,200)
Proceeds from borrowings	**240,000**	29,824
Loan guarantee and debt arrangement fees paid	**(9,450)**	–
NET CASH USED IN FINANCING ACTIVITIES	**(11,924)**	(7,032)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS FOR THE PERIOD	**(174)**	786
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**7,637**	8,650
Effect of foreign exchange rate changes	**141**	(61)
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD, represent by bank balances	**7,604**	9,375

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial information relating to the year ended 31 December 2018 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

In preparing these condensed consolidated financial statements, the directors of the Company have given careful consideration to the going concern status of the Group in light of the Group's loss for the period, its net current liabilities position of approximately United States Dollars ("US$") 54.5 million as at 30 June 2019 and the outstanding bank borrowings and related interest due for repayment in the coming twelve months against the expected future net cash inflows from operations and cash and cash equivalents.

The Group has prepared a cash flow forecast which involves judgments and estimations based on management's input of key variables and market conditions including the future economic conditions, expected production capacity of the Kimkan and Sutara Project ("K&S Project"), iron ore sales and sales prices and the US$/Ruble exchange rates for a fifteen month period after 30 June 2019. The cash flow forecast has been determined using estimations of future cash flows based on projected income and expenses of the business and working capital needs.

However, if the market conditions turn out to be significantly less favourable to the Group than predicted, the Group may not have sufficient working capital to finance its operations and loan repayments resulting in its financial liquidity being adversely impacted. The Group would need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt or equity financing.

The Group believes it has sufficient liquidity based upon the expected cash to be generated from operations to meet its financial obligations as they fall due for the coming twelve months.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments, which are measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and new interpretation issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs and new interpretation in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Non-lease components are separated from lease components on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of locomotives and office in Russia that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets (Continued)

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities (Continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of machinery and equipment in the Russia was determined on a portfolio basis; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition.

The Group recognised lease liabilities of US$12,804,000 and right-of-use assets of US$12,804,000 at 1 January 2019 for lease of wagons at the mining site.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 10.79%.

	At 1 January 2019 US$'000
Operating lease commitments disclosed as at 31 December 2018	16,900
Lease liabilities discounted at relevant incremental borrowing rates	12,804
Lease liabilities relating to operating lease recognised upon application of HKFRS 16 as at 1 January 2019	12,804
Analysis as:	
Current	2,659
Non-current	10,145
	12,804

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets US$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	12,804
By class:	
Mining assets	12,804

For the Six Months Ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Effective on 1 January 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the condensed consolidated financial statements of the Group for the current period.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not attested by the change have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustment	Carrying amounts under HKFRS 16 1 January 2019
	US$'000	US$'000	US$'000
Non-current Assets			
Right-of-use assets	–	12,804	12,804
Current liabilities			
Lease liabilities	–	2,659	2,659
Non-current Liabilities			
Lease liabilities	–	10,145	10,145

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

3. REVENUE

Disaggregation of revenue from contracts with customers

Six months ended 30 June 2019 (unaudited)

Segments	Mine in production US$'000	Engineering US$'000	Total US$'000
Types of goods or services			
Sale of iron ore concentrate	75,209	–	75,209
Delivery services	13,337	–	13,337
Engineering services	–	698	698
	88,546	698	89,244
Geographical markets			
PRC	30,720	–	30,720
Russia	57,826	698	58,524
	88,546	698	89,244
Timing of revenue recognition			
A point of time	75,209	–	75,209
Over time	13,337	698	14,035
	88,546	698	89,244

3. REVENUE (CONTINUED)

Six months ended 30 June 2018 (unaudited)

Segments	Mine in production US$'000	Engineering US$'000	Total US$'000
Types of goods or services			
Sale of iron ore concentrate	69,962	–	69,962
Engineering services	–	223	223
	69,962	223	70,185
Geographical markets			
PRC	46,459	–	46,459
Russia	23,503	223	23,726
	69,962	223	70,185
Timing of revenue recognition			
A point of time	69,962	–	69,962
Over time	–	223	223
	69,962	223	70,185

4. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments for the period under review:

Six months ended 30 June 2019 (unaudited)

	Mine in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	88,546	–	698	–	89,244
Segment revenue	88,546	–	698	–	89,244
Site operating expenses and service costs	(79,473)	(168)	(1,093)	(6)	(80,740)
Site operating expenses and service costs include:					
Depreciation and amortisation (see note 5(a))	(14,610)	(140)	(66)	–	(14,816)
Segment results	9,073	(168)	(395)	(6)	8,504
General administrative expenses					(5,118)
General depreciation					(103)
Other income, gains and losses					(5,012)
Allowance for financial assets measured at amortised cost					–
Financial costs					(24,203)
Loss before taxation					(25,932)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED...)

For the Six Months Ended 30 June 2019

4. SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2018 (unaudited)

	Mine in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	69,962	–	223	–	70,185
Segment revenue	69,962	–	223	–	70,185
Site operating expenses and service costs	(64,346)	(145)	(752)	(6)	(65,249)
Site operating expenses and service costs include:					
Depreciation and amortisation (see note 5(a))	(8,945)	(107)	(74)	–	(9,126)
Segment results	5,616	(145)	(529)	(6)	4,936
General administrative expenses					(5,229)
General depreciation					(6)
Other income, gains and losses					2,976
Allowance for financial assets measured at amortised cost					(7,548)
Financial costs					(10,430)
Loss before taxation					(15,301)

5. OPERATING EXPENSES

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(unaudited)	(unaudited)
Site operating expenses and service costs[(a)]	**80,740**	65,249
General administrative expenses[(b)]	**5,221**	5,235
	85,961	70,484

(a) Site operating expenses and service costs

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(unaudited)	(unaudited)
Subcontracted mining costs and engineering services	**24,941**	13,604
Railway tariff	**19,416**	17,860
Depreciation and amortisation	**13,114**	9,126
Staff costs	**9,355**	9,985
Materials usage	**6,537**	5,803
Electricity	**3,543**	4,332
Property tax	**2,909**	3,336
Other expense	**2,432**	1,567
Depreciation of right-of-use assets	**1,702**	–
Fuel	**1,090**	1,139
Professional fees*	**728**	207
Tax on extraction of mineral resources	**215**	–
Office costs	**176**	195
Lease expenses in respect of short-term leases and leases of low-value assets	**144**	165
Insurance	**65**	79
Bank charges	**59**	54
Business travel expenses	**21**	18
Mine development costs capitalised in property, plant and equipment	**(930)**	(791)
Movement in finished goods and work in progress	**(4,777)**	(1,430)
	80,740	65,249

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED...)

For the Six Months Ended 30 June 2019

5. OPERATING EXPENSES (CONTINUED)

(b) General Administrative Expenses

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(unaudited)	(unaudited)
Staff costs other than share-based payments	**2,984**	2,246
Professional fees*	**762**	1,273
Share-based payments	**737**	1,112
Business travel expenses	**213**	165
Office costs	**170**	173
Office rent	**133**	118
Depreciation	**103**	6
Bank charges	**58**	97
Insurance	**52**	45
Other expenses	**9**	–
	5,221	5,235

* Professional fees comprise audit fees, legal fees, consulting fees, management services fees and engineering consultancy fees.

6. FINANCIAL COSTS

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(unaudited)	(unaudited)
Interest expense on borrowings	**11,361**	9,155
Finance expenses on early repayment of bank loan	**11,465**	–
Interest expense on lease liabilities	**671**	–
Unwinding of discount on environmental obligation and long-term construction costs payable	**706**	1,275
	24,203	10,430

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(unaudited)	(unaudited)
Russia Corporate tax	**(19)**	(9)
Hong Kong Profits tax	**–**	(29)
Deferred tax credit (expense)	**727**	(298)
	708	(336)

Russia Corporate tax is calculated at a rate of 20% of the estimated assessable profit for each of the six months ended 30 June 2019 and 2018.

Based on the approved federal and regional laws in Russia, the K&S Project is considered to be an investment project and is exempted from Russia Corporate tax for the period from 2016 to 2021 and then, will be taxed at a reduced rate of 10% in the following 5 years increasing to 20% thereafter.

On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rates regime, the first HK$2,000,000 of assessable profits of the qualifying group entity will be taxed at 8.25%, and assessable profits above HK$2,000,000 will be taxed at 16.5%.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit.

No tax from other jurisdictions has been recognised as the Group had no assessable profit arising in or derived from any other jurisdictions for the six months ended 30 June 2019 and 2018.

8. DIVIDENDS

No dividends were paid, declared or proposed to owners of the Company during both the six months ended 30 June 2019 and 2018.

9. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to owners of the Company is based on the following data:

Loss

	Six months ended 30 June	
	2019	2018
	US$'000	US$'000
	(unaudited)	(unaudited)
Loss for the purposes of basic and diluted loss per ordinary share being loss for the period attributable to owners of the Company	**(25,204)**	(15,619)

Number of shares

	Six months ended 30 June	
	2019	2018
	Number	Number
	'000	'000
Number of ordinary shares for the purposes of basic and diluted loss per ordinary share	**7,093,386**	7,093,386

The computation of diluted loss per share for both periods ended 30 June 2019 and 2018 does not assume the exercise of share options granted by the Group because the exercise price of those options was higher than the average market price for the Company's shares.

10. MOVEMENTS IN EXPLORATION AND EVALUATION ASSETS, PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the period, the Group spent approximately US$1.7 million (for the six months ended 30 June 2018: US$2.2 million) on the mine development and acquisition of property, plant and equipment.

The depreciation charge for the six months ended 30 June 2019 is approximately US$14,919,000 (for the six months ended 30 June 2018: US$9,132,000).

During the current interim period, the Group entered into new lease agreements for the use of bus and office for 3 years and 1.5 years respectively. The Group is required to make fixed monthly payments. On lease commencement, the Group recognised a right-of-use asset of US$343,000 and lease liability of US$343,000.

At 30 June 2019, the Group did not have any material contractual commitments for the acquisition of property, plant and equipment (31 December 2018: Nil).

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019 US$'000 (unaudited)	As at 31 December 2018 US$'000 (audited)
Trade receivables	**11,995**	2,227
Unbilled receivables under engineering contracts	**302**	204
Value-added tax recoverable	**402**	3,762
Prepayments to suppliers	**3,534**	2,867
Other debtors	**2,021**	1,967
	18,254	11,027

Unbilled receivables under engineering contracts are expected to be billed and settled within one year and relate to long-term contracts in progress.

The Group allows an average credit period of 30 days to individual third party customers. Except for trade receivables measured at fair value through profit or loss, the Group applies the simplified approach in accordance to HKFRS 9 to measure expected credit loss ("ECL") which used a lifetime, the directors of the Company considered that the lifetime ECL allowance is insignificant as at 30 June 2019 and 31 December 2018.

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

The following is an analysis of the trade receivables by age, presented based on the invoice date.

	As at 30 June 2019 US$'000 (unaudited)	As at 31 December 2018 US$'000 (audited)
Less than one month	11,943	2,222
One month to three months	52	5
Total	11,995	2,227

12. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS ("ECL") MODEL

	Six months ended 30 June	
	2019 US$'000 (unaudited)	2018 US$'000 (unaudited)
Impairment loss recognised in respect of		
trade receivables	–	29
other receivables	–	7,519
	–	7,548

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

13. TRADE AND OTHER PAYABLES

	As at 30 June 2019 US$'000 (unaudited)	As at 31 December 2018 US$'000 (audited)
Trade payables	9,000	8,188
Advances from customers	151	229
Interest payables	572	339
Construction cost payables	22,351	13,182
Accruals and other payables	31,391	32,850
	63,465	54,788

For individual third party trade creditors, the average credit period on purchase of goods and services for the period was 27 days (31 December 2018: 11 days).

The following is an aged analysis of the trade creditors based on invoice date.

	As at 30 June 2019 US$'000 (unaudited)	As at 31 December 2018 US$'000 (audited)
Less than one month	5,556	6,058
One month to three months	2,937	1,922
Over three months to six months	353	131
Over six months	154	77
Total	9,000	8,188

14. BORROWINGS

	As at 30 June 2019 US$'000 (unaudited)	As at 31 December 2018 US$'000 (audited)
Bank loans		
Gazprombank JSC	**231,758**	–
Industrial and Commercial Bank of China ("ICBC")	**–**	158,777
	231,758	158,777
Other loans		
EPC – Finance LLC	**65**	63
CJSC Pokrovskiy Rudnik	**–**	54,029
	65	54,092
Total	**231,823**	212,869
Secured	**231,758**	158,777
Unsecured	**65**	54,092
	231,823	212,869
Carrying amounts repayable*:		
Within one year	**20,710**	111,954
More than one year, but not exceeding two years	**20,348**	44,886
More than two years, but not exceeding five years	**61,045**	56,029
More than five years	**129,720**	–
Total	**231,823**	212,869
Presented as:		
Current liabilities	**20,710**	111,954
Non-current liabilities	**211,113**	100,915
	231,823	212,869

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

14. BORROWINGS (CONTINUED)

The Group is required to comply with certain restrictive financial covenants and undertaking requirements.

Bank loan from ICBC

The Group entered into a project finance facility agreement with ICBC (the "ICBC Facility Agreement") on 13 December 2010 pursuant to which ICBC would lend US$340,000,000 to LLC KS GOK, a subsidiary of the Group, to be used to fund the construction of the Group's mining operations, the K&S Project. The whole facility was originally repayable semi-annually in 16 instalments of US$21,250,000 each, starting from December 2014 and would be fully repayable by June 2022. On 27 February 2017, ICBC agreed to restructure two repayments originally due for payment on 20 June 2017 and 20 December 2017 in an aggregate amount of US$42,500,000 into five subsequent semi-annual repayment instalments. As a result, each of the repayment instalments due on 20 June 2018, 20 December 2018, 20 June 2019, 20 December 2019 and 20 June 2020 increased by US$8,500,000 to an amount equal to US$29,750,000.

On 19 March 2019, the Group repaid the outstanding loan principal and interest in full and terminated the ICBC Facility Agreement.

Bank loan from Gazprombank JSC

On 18 December 2018, the Group entered into two facility agreements for a loan in aggregate of US$240 million (the "Gazprombank Facility"). The Gazprombank Facility will mature in 2026 and consists of two tranches. The principal under the first tranche amounts to US$160 million with interest being charged at the London Inter-bank Offer Rate ("LIBOR") + 5.7% per annum and is repayable in equal quarterly payments during the term of the Gazprombank Facility, the final payment in December 2026. The principal under the second tranche amounts to US$80 million with interest being charged at LIBOR + 7.7% per annum and is repayable in full at the end of the term, in December 2026. Interest charged on the drawn down amounts under the two tranches is payable in equal quarterly payments during the term of the Gazprombank Facility.

On 19 March 2019, the Group drew down on the Gazprombank Facility to repay the bank loan from ICBC in full of approximately US$169 million and to finance the K&S Project's working capital of approximately US$3 million.

On 21 March 2019, the Group further drew down on the Gazprombank Facility to repay the loans from CJSC Pokrovskiy Rudnik in full of approximately US$57 million.

The remaining amounts of the Gazprombank Facility will be used for the following purposes: (i) to finance the K&S Project's working capital of approximately US$5 million and (ii) to repay part of the guarantee fee of approximately US$6 million owed by the Group to Petropavlovsk plc in respect of their guarantee of the ICBC Facility Arrangement.

As at 30 June 2019, the full facility amount of US$240 million has been fully drawn down.

The Gazprombank Facility is secured by i) a charge over the property, plant and equipment with net book value of US$28 million, ii) 100% equity share of Kapucius Services Limited in LLC KS GOK and iii) a guarantee from Petropavlovsk plc.

The drawn down of the Gazprombank Facility is subject to the following requirements:

a) LLC KS GOK must maintain an authorised capital not less than RUB9.1 billion;

b) the Group must provide quarterly reporting; and

14. BORROWINGS (CONTINUED)

Bank loan from Gazprombank JSC (Continued)

c) the LLC KS GOK must meet the following financial covenants:

   i) Net Debt/EBITDA ratio:

   - For the periods ending on 30 June 2019 and 31 December 2019 of less than 6.5 times
   - For the periods ending 30 June 2020 and 31 December 2020 of less than 5.0 times
   - For the periods ending 30 June 2021 and 31 December 2021 of less than 3.5 times and,
   - Starting from the period ending on 30 June 2022, of less than 3.0 times

   ii) Debt Service Coverage Ratio (DSCR):

   - For the periods ending on 30 June 2019 or 31 December 2019 – not less than 1.1 times
   - Starting from the period ending on 30 June 2020 – not less than 1.2 times

Loan from EPC-Finance LLC

On 27 April 2018, LLC Petropavlovsk Iron Ore, a subsidiary of the Group, obtained an unsecured loan facility of RUB6,000,000 from EPC-Finance LLC, an independent third party. The loan carries interest of 11% per annum and is repayable on 27 April 2020. As at 30 June 2019, RUB4,080,000 (equivalent to US$65,000) has been drawn down (31 December 2018: RMB4,080,000 (equivalent to US$63,000)).

Loans from CJSC Pokrovskiy Rudnik

On 13 June 2018, the Group obtained an unsecured short-term loan of RUB1,877,712,900 (equivalent to US$29,750,000) from CJSC Pokrovskiy Rudnik, a subsidiary of Petropavlovsk PLC. The loan carries interest of 12% per annum and is repayable on 21 March 2019.

On 18 December 2018, the Group obtained a second unsecured short-term loan of RUB1,798,712,000 (equivalent to US$27,000,000) from CJSC Pokrovskiy Rudnik. The loan carries interest of 16% per annum and was repayable on 21 March 2019.

On 21 March 2019, the Group repaid the outstanding loan principal and interest in full and terminated the credit facility.

15. OTHER FINANCIAL LIABILITIES

	Current	
	As at 30 June 2019 US'000 (unaudited)	As at 31 December 2018 US'000 (audited)
Other financial liabilities		
Derivatives under hedge accounting		
Cash flow hedges – Commodity Swap Contracts	**(21,155)**	–

Cash flow hedges

At the end of the reporting period, the Group had the following commodity swap contracts designated as highly effective hedging instruments in order to manage the Group's iron ore price exposure in relation to iron ore forecast sales.

The fair value of commodity swap contracts at the end of the reporting period are provided by counterparty financial institutions.

During the period ended 30 June 2019, the loss on changes in fair values of the commodity swap contracts under cash flow hedges amounting to US$31,815,000 (six months ended 30 June 2018: gain on changes in fair values of US$2,026,000) has been recognised in other comprehensive income, and the fair value losses of the hedging instruments amounting to US$10,660,000 (six months ended 30 June 2018: nil) were reclassified from hedging reserve to profit or loss in the same period when the hedged item affects profit or loss upon the settlement.

16. SHARE CAPITAL

There were no movements in the issued share capital of the Company during the six months ended 30 June 2019 and 2018. Details of the share capital of the Company at 30 June 2019 and 31 December 2018 are as follows:

	Number of shares	**Share capital US$'000**
Issued and fully paid		
At 1 January 2019 and 30 June 2019	7,093,386,381	1,285,158

At 30 June 2019, the rights granted to Tiger Capital Fund to subscribe for a maximum of 60,000,000 new ordinary shares ("Option Shares") in December 2016 remained outstanding and expire in December 2021. No option shares granted were exercised or lapsed during the six months ended 30 June 2019.

17. RELATED PARTY DISCLOSURES

In addition to the transactions, balances and commitments disclosed elsewhere in this report, during the six months ended 30 June 2019, the Group entered into the following transactions with related parties:

Related parties

Petropavlovsk PLC, which is a substantial shareholder of the Company, and its subsidiaries are considered to be related parties.

As disclosed below, Petropavlovsk PLC, the Company and LLC KS GOK have entered into an agreement setting out the terms on which Petropavlovsk PLC provides a guarantee securing the Gazprombank Facility.

Trading transactions

Related party transactions the Group entered into that related to the day-to-day operation of the business are set out below.

	Services provided[(a)] Six months ended 30 June		Services received[(b)] Six months ended 30 June	
	2019 US$'000 (unaudited)	2018 US$'000 (unaudited)	**2019 US$'000 (unaudited)**	2018 US$'000 (unaudited)
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	**–**	–	**690**	2,091
LLC NPGF Regis	**–**	1	**–**	–
CJSC Pokrovsky Rudnik	**–**	–	**1,804**[(c)]	–
Malomirsky Rudnik	**–**	211	**–**	–
MC Petropavlovsk	**159**	177	**19**	38
LLC Gidrometallurgia	**60**	59	**–**	–
LLC BMRZ	**–**	–	**4**	–
CJSC Pokrovskiy Rudnik	**–**	–	**–**	167

(a) Amounts represent fee received/receivable from related parties for provision of helicopter services and administrative support.

(b) Amounts represent fee paid/payable to related parties for receipt of financial guarantee, administrative support, and interest payable/paid on short term loan.

(c) The amounts represent interest on loan borrowings from CJSC Pokrovsky Rudnik during the current interim period.

The related party transactions as disclosed above were conducted in accordance with terms mutually agreed with counter parties.

17. RELATED PARTY DISCLOSURES (CONTINUED)

Trading transactions (Continued)

The outstanding balances with related parties at the end of the reporting period are set out below.

	Amounts owed by related parties[(a)]		Amounts owed to related parties[(b)]	
	As at 30 June 2019 US$'000 (unaudited)	As at 31 December 2018 US$'000 (audited)	**As at 30 June 2019 US$'000 (unaudited)**	As at 31 December 2018 US$'000 (audited)
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	**–**	–	**5,026**	10,336
OJSC Irgiredmet	**–**	–	**2**	2
LLC NPGF Regis	**17**	16	**96**	104
CJSC Albynsky Rudnik	**148**	135	**–**	–
CJSC Pokrovskiy Rudnik	**180**	163	**–**	54,076[(c)]
Malomirsky Rudnik	**11**	151	**–**	–
MC Petropavlovsk	**758**	509	**1,980**	1,952
LLC Gidrometallurgia	**3**	–	**–**	–
LLC BMRZ	**–**	–	**2**	–

(a) The amounts are recorded in other receivables, which are unsecured, non-interest bearing and repayable on agreed terms within twelve months from the end of the reporting period.

(b) Other than the outstanding loan balance of US$54,029,000 due to CJSC Pokrovskiy Rudnik as described in note (c) below, the amounts are recorded in other payables, which are unsecured, non-interest bearing and repayable on agreed terms within twelve months from the end of the reporting period.

(c) The balance included a loan from CJSC Pokrovskiy Rudnik of US$54,029,000 at 31 December 2018.

Key Management Compensation

The remuneration of directors, which represent members of key management, during the period was as follows:

	Six months ended 30 June	
	2019 US$'000 (unaudited)	2018 US$'000 (unaudited)
Short-term benefits	**1,062**	1,050
Post-employment benefits	**45**	57
Share-based payments	**185**	491
	1,292	1,598

The remuneration of key management personnel is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' INTERESTS

As at 30 June 2019, the interests or short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares of the Company

Name of director	Nature of interest	Number of shares in the Company	Percentage of issued shares in the Company at 30 June 2019
Peter Hambro	Beneficial interest	15,330,000	0.22%
Yury Makarov	Beneficial interest	30,911,505	0.44%
	Contingent beneficial interest*	60,051,086	0.85%^
Raymond Kar Tung Woo	Beneficial interest	7,435,360	0.10%
Danila Kotlyarov	Contingent beneficial interest*	60,051,086	0.85%^
Chi Kin Cheng	Contingent beneficial interest**	60,000,000	0.85%^

* The interest relates to the share options granted by the Company on 20 November 2015 and on 29 September 2017. Details of the share option scheme are set out on page 138 of the 2018 Annual Report of the Company under the heading "SHARE-BASED PAYMENTS TRANSACTIONS".

** The interest relates to the share options granted by the Company on 30 December 2016. Details of the share options are set out on page 132 of the 2018 Annual Report of the Company under the heading "SHARE CAPITAL".

^ These percentages are calculated on the basis of 7,093,386,381 Shares in issue as at 30 June 2019.

Long positions in shares of an associated corporation

As at 30 June 2019, Peter Hambro, Non-Executive Director, and Yury Makarov, Executive Director, beneficially hold 20,450,395 shares and 75,278 shares of Petropavlovsk PLC ("Petropavlovsk") respectively. Petropavlovsk, through its wholly-owned subsidiary Cayiron Limited, is a substantial shareholder of the Company, and accordingly an associated corporation of the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Except as described below, none of the Directors of the Company or their respective associates was interested in, apart from the Group's businesses, any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Petropavlovsk, a substantial shareholder of the Company, and its subsidiaries (the "Petropavlovsk Group") are principally engaged in the exploration, development and production of precious metal deposits in Russia. The Directors do not consider Petropavlovsk to be a competitor of the Company because Petropavlovsk focuses on different commodities to the Company.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 30 June 2019.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

So far as is known to any Director or chief executive of the Company, as at 30 June 2019, the Company's shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company as under Section 336 of the SFO were as follows:

Name of director	Capacity	Number of shares in the Company	Percentage of issued shares in the Company as at 30 June 2019
Petropavlovsk PLC	Interest of a controlled corporation	2,205,900,000	31.10%
Cayiron Limited*	Beneficial interest	2,205,900,000*	31.10%

* Cayiron Limited is a wholly owned subsidiary of Petropavlovsk PLC.

Save as disclosed above and those disclosed under "Directors' Interests", the Company had not been notified of other interests representing 5% or more of the issued share capital of the Company as at 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities. As at 30 June 2019, the Company had not been notified of any short positions being held by any substantial shareholder in shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

CORPORATE GOVERNANCE AND OTHER INFORMATION

The Management and Board of IRC are committed to promoting good corporate governance to safeguard the interests of the shareholders and to enhance the Group's performance. Detailed disclosure of the Company's corporate governance policies and practices is available in the 2018 Annual Report of the Company.

During the six months ended 30 June 2019, the Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited except that the Independent Non-Executive Director, Mr. Simon Murray, CBE, Chevalier de la Légion d'Honneur was unable to attend the annual general meeting of the Company held on 19 June 2019 as provided for in code provision A.6.7 as he had overseas engagements. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Company has made specific enquiry of all the Directors regarding any non-compliance with the Model Code during the period and they have confirmed their full compliance with the required standard set out in the Model Code. The Company has also adopted the Model Code as the Code for Securities Transactions by Relevant Employees to regulate dealings in securities of the Company by certain employees of the Company, or any of its subsidiaries and the holding companies who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

Petropavlovsk is connected party of the Group and transactions with this entity during the six months ended 30 June 2019 are set out in note 17 to the condensed consolidated financial statements.

The 2019 interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

GLOSSARY

This glossary contains definitions of certain terms used in this report in connection with the Group and its business. Some of these may not correspond to standard industry definitions.

ASP	Average selling price
Board	The Board of Directors
Cayiron	Cayiron Limited, a wholly owned subsidiary of Petropavlovsk and the immediate controlling shareholder of the Company
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFR	INCOTERM Cost and Freight
CIM	The Canadian Institute of Mining, Metallurgy and Petroleum
CNEEC	China National Electric Engineering Company Limited, the principle EPC contractor at the K&S Project
Concentrate	The clean product recovered from a treatment plant
DAP	INCOTERM Delivery at Place
Deposit	Mineral deposit or ore deposit is used to designate a natural occurrence of a useful mineral, or an ore, in sufficient extent and degree of concentration
Directors	The directors of the Company
DSO	Direct shipping ores. Ores that are economic due to their high grades and therefore limited requirement for upgrading and processing before sale to end users. Raw material for iron ore concentrate, isometric mineral, Fe
EAO	Jewish Autonomous Region, an oblast of the Russian Federation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPC	Engineering, Procurement and Construction contract
Exploration	Method by which ore deposits are evaluated
Fe	The chemical symbol for iron
Feasibility study	An extensive technical and financial study to assess the commercial viability of a project
Flotation	A mineral process used to separate mineral particles in a slurry, by causing them to selectively adhere to a froth and float to the surface
FOB	INCOTERM Free on Board
Gazprombank	Gazprombank, is a private-owned Russian bank, the third largest bank in Russia by assets
GDP	Gross domestic product
General Nice	General Nice Development Limited is a Hong Kong incorporated holding company which trades and produces steel raw material commodities in China and globally
Geophysical	Prospecting techniques which measure the physical properties (magnetism, conductivity, density, etc.) of rocks and define anomalies for further testing
Geotechnical	Referring to the use of scientific methods and engineering principles to acquire, interpret, and apply knowledge of earth materials for solving engineering problems
Grade	Relative quantity or the percentage of ore mineral or metal content in an ore body
HK$	Hong Kong dollars, the lawful currency of Hong Kong
HKEx	Hong Kong Exchanges and Clearing Limited
Hong Kong	The Hong Kong Special Administrative Region of the PRC
ICBC	Industrial and Commercial Bank of China Limited, a company listed on the Stock Exchange (Stock code: 1398)
Ilmenite	Iron titanium oxide; a trigonal mineral, chemical formula $FeTiO_3$
JORC code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition), as published by the Joint Ore Reserves Committee, as amended from time to time
K&S	A magnetite development project in the Company's portfolio consisting of the Kimkan deposit and the Sutara deposit
LTIFR	Lost time injury frequency rate, the number of lost time injuries per million man hours worked
Magnetite	Fe_3O_4; major mineral in banded iron formations, generally low grade (1.5-40% iron)

GLOSSARY (CONTINUED...)

Metallurgical	Describing the science concerned with the production, purification and properties of metals and their applications
Micon	Micon International Limited has provided consulting services to the international mining industry since 1988, with particular focus upon mineral resource estimations, metallurgical services, mine design and production scheduling, preparation of pre-feasibility and feasibility studies, independent reviews of mining and mineral properties, project monitoring, independent engineer roles, financial analysis and litigation support. Micon's resource estimate complies with the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) standards and definitions, as required by Canadian National Instrument 43-101 (NI 43-101)
Mill	Equipment used to grind crushed rocks to the desired size for mineral extraction
Mineralisation	Process of formation and concentration of elements and their chemical compounds within a mass or body of rock
NI 43-101	Also referred to as National Instrument 43-101, the (Canadian) Standards of Disclosure for Mineral Projects, including Companion Policy 43-101 as amended from time to time
Open-pit	A large scale hard rock surface mine; mine working or excavation open to the surface
Optimisation	Co-ordination of various mining and processing factors, controls and specifications to provide optimum conditions for technical/economic operation
Ore	Material from which a mineral or minerals of economic value can be extracted profitably or to satisfy social or political objectives
Ore-field	A zone of concentration of mineral occurrences
Ore body	Mining term to define a solid mass of mineralised rock which can be mined profitably under current or immediately foreseeable economic conditions
Ore Reserves	The parts of a Mineral Resource that can at present be economically mined
Petropavlovsk	Petropavlovsk plc, the London Stock Exchange quoted, Russian gold mining company
Precious metal	Gold, silver and platinum group minerals
Primary	Characteristic of or existing in a rock at the time of its formation; pertains to minerals, textures etc.; original
Processing	Methods employed to clean, process and prepare materials or ore into the final marketable product
Recovery	Proportion of valuable material obtained in the processing of an ore, stated as a percentage of the material recovered compared with the total material present
Resources	The concentration of material of economic interest in or on the earth's crust
ROM	Run-of-mine. This is recovered ore, as mined with dilution, before any pre-concentration or other form of processing
Russian Far East	Refers to the Far Eastern Federal district of the Russian Federation, which covers the area of Russia between Lake Baikal in Siberia and the Pacific Ocean
Shareholder(s)	Holder of the Share(s)
SRP	Steel/Slag Reprocessing Project
Stock Exchange	The Stock Exchange of Hong Kong Limited
Tailings	Material that remains after all metals/minerals considered economic have been removed from the ore
TiO_2	Titanium dioxide. A fine white powder. Used in paints, plastics or paper, it provides for maximum whiteness and opacity
Titanomagnetite	Concentrate which is a variation of a magnetite concentrate typically with a high vanadium and titanium content
Treatment plant	A plant where ore undergoes physical or chemical treatment to extract the valuable metals/minerals
Tonne/t	1 wet metric tonne (1,000 kg)
US Dollar or US$	United States Dollar

GLOSSARY (CONTINUED...)

LIST OF ABBREVIATIONS

°C	degrees Celsius, a thermal unit equivalent to Kelvin+273.15
CaO	chemical symbol for calcium oxide or quicklime
Fe	chemical symbol for iron
Fe_{magn}	total iron in the ore originating from magnetite
$Fe_{(total)}$	total amount of iron content
kg	kilogramme, the SI unit of mass
km	kilometres, a unit of length equivalent to 1,000 m
km^2	square kilometres, a unit of area equivalent to 1,000,000 m^2
Kt	thousand tonnes
Ktpa	thousand tonnes per annum
kV	kilovolts, one thousand volts, a unit of electromotive force
Kwh	kilowatt hour, a unit of energy
m	metres, the SI unit of length
m^3	cubic meter, a unit of volume
mm	millimetres, unit of length equivalent to 0.001 m
Mt	million tonnes
Mtpa	million tonnes per annum
mWt	megawatt, one million watts, a unit of power
nm	not measured
sq.m.	square metre, a unit of area
t	a wet metric tonne, a unit of mass equivalent to 1,000 kg
tpa	tonnes per annum
TiO_2	chemical symbol for titanium dioxide
V_2O_5	chemical symbol for vanadium pentoxide

All dollars refer to United States Dollars unless otherwise stated.

All maps and diagrams in this report are for illustration purposes only and are not to scale.

CORPORATE INFORMATION

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Stock Exchange of Hong Kong: 1029

CORPORATE INFORMATION

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Hong Kong Business Registration number: 52399423
Hong Kong Company Registration number: 1464973

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CHAIRMAN

P.C.P. Hambro

DEPUTY CHAIRMAN

D.R. Bradshaw

EXECUTIVE DIRECTORS

Chief Executive Officer: Y.V. Makarov
Chief Financial Officer: D. Kotlyarov

NON-EXECUTIVE DIRECTORS

P.C.P. Hambro
C.K. Cheng

INDEPENDENT NON-EXECUTIVE DIRECTORS

D.R. Bradshaw, *Senior Independent Non-Executive Director*
C.F. Li
J.E. Martin Smith
S. Murray, *CBE, Chevalier de la Légion d'Honneur*
R.K.T. Woo

EMERITUS DIRECTOR

Dr P.A. Maslovskiy

COMMITTEES OF THE BOARD

Audit Committee

C.F. Li *(Chairman)*
J.E. Martin Smith
D.R. Bradshaw

Remuneration Committee

J.E. Martin Smith *(Chairman)*
D.R. Bradshaw
C.F. Li

Health, Safety and Environmental Committee

D.R. Bradshaw *(Chairman)*
C.F. Li
J.E. Martin Smith

Nomination Committee

P.C.P. Hambro *(Chairman)*
D.R. Bradshaw
J.E. Martin Smith

AUTHORISED REPRESENTATIVES FOR THE PURPOSES OF THE STOCK EXCHANGE OF HONG KONG LIMITED

D. Kotlyarov
J. Yuen

COMPANY SECRETARY

J. Yuen

RISK FACTORS & DISCLAIMER

RISK FACTORS

The Group is exposed to a variety of risks and uncertainties which could significantly affect its business and financial results. The Group seeks to undertake a pro-active approach that anticipates risk, seeking to identify them, measure their impacts and thereby avoid, reduce, transfer or control such risks.

The factors set out below are those that the Group believes could result in the Group's financial condition or results of operations differing materially from expected or historical results. There may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Risk of iron ore price volatility and foreign exchange movements

The Group's revenues are dependent on iron ore prices while operating costs are sensitive to the foreign exchange movements of Russian Rouble. These parameters are subject to changes in global economic environment, political landscape and market supply disruptions. The volatility in iron ore price and foreign exchange may also result in the need to provide for assets impairments in the Group's financial statements.

To address the risks, various hedging instruments are entered into to protect against the downside risks of the iron ore price movements. The Group also monitors the movements in the exchange rate of Russian Rouble and could perform currency hedging if considered necessary.

Risk of customers concentration

Currently, the Group's iron ore business only has a limited number of major customers. This essentially creates a buyers' market and gives the customers a higher level of bargaining power.

In light of this risk, the Group is exploring the possibility of selling to other Chinese customers, although the transportation costs could be higher. The Group is also levering on the fact the major customers are in different geographical locations and jurisdictions, so that there is a certain level of competition for better sales terms and prices. External consultant has been engaged to provide advices and explore new market opportunities. In addition, after the commissioning of the Amur River Bridge, IRC will actively explore new transportation routes which may be more cost efficient to allow the Group to tap into new customer base.

Risk of suppliers concentration

The Group currently has one mining contractor who is doing a majority of the mining works on K&S. In case this mining contractor has any technical/financial difficulties and decides to pull out of the project, K&S could face an adverse situation with ore mining and supply, and consequently could affect production. Besides, this gives this mining contractor a higher level of bargaining power on mining fees which might adversely affect K&S's profitability.

To mitigate this risk, the Group adopts a policy of having at least 2 mining contractors. Discussions are ongoing with a number of other mining contractors for risk diversification. Moreover, the current main mining contractor has a long-established relationship with IRC and this provides a certain level of comfort.

Risk of delay in the capital investment program to develop the Sutara pit due to technical or financial difficulties

If the Sutara deposit is not ready for operation when the Kimkan deposit starts depleting, K&S would not have adequate supply of ore for production and would result in decrease in production capacity.

To mitigate this risk, the Sutara development program is closely monitored by IRC, With the help of external consultants, IRC is looking at the options to increase the mineable reserves in Kimkan to extend its mine life. The Group is also discussing with potential partners/investors to assess if any form of fund raising/co-investment is feasible, if needed. Recent consultant report shows that the Sutara development program is viable and achievable.

Risk of going concern

The Group may not have adequate funding to meet its debts as they fall due.

The completion of the ICBC refinancing with the loans from Gazprombank has significantly reduced the going concern risks. Cash flow forecasts are prepared on a monthly basis, and any potential funding gaps are identified and addressed timely.

Risk of fixed assets damage resulting in downtime in production or fluctuation in production volume

Fixed assets play an important role in the Group’s iron ore production. With only a single project in operation, any production downtime or delay in production ramp up would have direct impact to the Group.

When considering this risk, it should be noted that most of the commissioning works were performed by the K&S site team and the team is experienced and is technically competent. External experts perform regular technical audits of the processing plant. Production is currently at relatively high capacities indicating that most of the teething issues have been resolved.

Risk of products’ competitiveness

The Group’s revenue stream is mainly derived from the sales of a single product (iron ore) from a single project (K&S) and there could be a risk of high product concentration.

K&S is focusing on the premium iron ore market (65% iron ore concentrate) which is essentially a different market segment to the 62% one and is more preferred by the market. As the quantity produced by K&S only represents a small percentage of the total market share, the risk of not being able to sell the product is relatively low. The potential re-opening of Kuranakh for the sale of 62% iron ore concentrate and ilmenite, the recommencement of the operation of the Vanadium joint venture and the potential of developing the Bolshoi Seym project for ilmenite may also lower the risk.

Risk of conducting business in Russia

As the majority of the Group's assets and business operations are located in Russia, sanctions from United States and the European Union as well as the local economic political and social conditions, including taxation policies, could affect the business of the Group.

To address the risk, the Group closely monitors the economic, political, legal and social developments in Russia and maintains close relationship with local authorities and seeks assistance where necessary. IRC has a strict policy to avoid doing businesses with sanctioned companies, individuals and regions. Despite sanctions from United States and the European Union which are not affecting the Group directly, overall political and legislative environments in Russia have been relatively stable over the past years.

Risk of loss of key management

There is a risk that IRC may find it difficult to attract and/or retain key personnel.

Directors of IRC have a reasonable notice period of resignation and share options which are vested over a period of time are granted to key personnel. Discretionary bonuses are offered to reward exceptional performance and salary levels are being reviewed regularly to ensure that they are competitive and on market levels.

Risk of non-compliance with rules and regulations

IRC is a listed company in Hong Kong and needs to comply with the relevant rules and regulations such as the listing rules, accounting standards and company ordinances. The operations in Russia also need to comply with the relevant requirements under the local jurisdictions.

To control this risk, the Board and the senior management of IRC possess the relevant experience and knowledge for the compliance with the relevant rules and regulations. Besides, advices from independent legal counsels and professional advisors are sought where necessary. Formal training is provided to the board annually. Continuing professional development seminars and rules and regulations updates are attended by senior management.

DISCLAIMER

Some statements contained in this document referred to in it are or may be forward-looking statements. Statements reflect the Company's current views with respect to future events and are subject to risks, assumptions, uncertainties and other factors beyond the Company's control that could cause actual results to differ from those expressed in such statements. Although the Company believes that such forward-looking statements, which speak only as of the date of this document, are reasonable, no assurance can be given that they will prove to be correct. Therefore, you should not place undue reliance on these statements. There can be no assurance that the results and events contemplated by the forward-looking statements contained in this document will, in fact, occur. The Company will not undertake any obligation to release publicly any revisions to these forward looking statements to reflect events, circumstances or unanticipated events occurring after the date of this document, except as required by law or by any appropriate regulatory authority. Nothing in this document or in documents referred to in it should be considered as a profit forecast. Past performance of the Company or its shares cannot be relied on as a guide to future performance. This document does not constitute, or form part of or contain any invitation or offer to any person to underwrite, subscribe for, otherwise acquire, or dispose of any shares in IRC Limited or advise persons to do so in any jurisdiction, nor shall it, or any part of it, form the basis of or be relied on in any connection with or act as an inducement to enter into any contract or commitment therefore. In particular, this document and the information contained herein are not an offer of securities for sale in the United States of America. No reliance may be placed for any purpose whatsoever on the information or opinions contained in this document or on its completeness and no liability whatsoever is accepted for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith. The development and production plans and estimates set out herein represent the current views of the Company's management. The Company's Board reviews the production estimates on an ongoing basis. All planning is subject to available funding and capital allocation decisions. This document is prepared in compliance with Hong Kong law and the courts of the Hong Kong Special Administrative Region of the People's Republic of China will have exclusive jurisdiction over any disputes arising from or connected with this document.

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MILESTONES

Our Future	K&S	Full capacity to 3.2mt per year Doubling production (Phase II)
	Kuranakh	Restart the mine
	Garinskoye	Trial production
1H2019	IRC	ICBC refinancing completed
	K&S	Operated at 93% of designed capacity in June
2018	K&S	Entry into refinancing facility with Gazprombank Operated at 105% of designed capacity during a 24-hour run Produced over 2.2 million tonnes in 2018
2017	K&S	Commercial production (Phase I) 90%-capacity Loading Test Produced over 1.5 million tonnes in 2017
2016	IRC	Tiger Capital shares subscription
	K&S	Trial production commenced and ramp-up First iron ore concentrate production Final hot commissioning and testing
2015	IRC	Completed fully underwritten Open Offer
	K&S	Ongoing commissioning and testing
2014	K&S	Commissioning Programme commenced
2013	IRC	General Nice Strategic Alliance
	K&S	Ongoing construction
2012	Kuranakh	Ilmenite production full capacity
	Garinskoye	DSO operation announced
	Exploration	Ilmenite & Molybdenum Exploration acquisitions
2011	IRC	Group reserves increase threefold
	Kuranakh	Full year production targets exceeded
	K&S	First drawdown ICBC facility Optimisation Study to double K&S production
2010	IRC	HKEx listing
	Kuranakh	Commissioned Iron ore production full capacity
	K&S	US$340m ICBC facility US$400m CNEEC EPC contract
	SRP	First production

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